

FISCAL NOTE

SB 1917 - HB 1946

May 18, 2001

SUMMARY OF BILL:

- Extends Franchise and Excise Taxes to sole proprietorships and partnerships, effective July 1, 2001 and would apply to tax periods beginning on or after July 1, 2001.
- Adds to the Excise Tax base annual compensation in excess of \$72,600 paid to 1% owners and their relatives, and to professional employees of professional service businesses, effective July 1, 2001 and would apply to tax periods beginning on or after July 1, 2001.
- Reduces the state sales tax rate from 6% to 4%, effective October 1, 2001.
- Eliminates all sales tax exemptions *except* gasoline, diesel fuel, sales for resale, and federally prohibited exemptions, effective October 1, 2001.
- Eliminates reduced sales tax rates, effective October 1, 2001.
- Includes services in the sales tax base, effective October 1, 2001.
- Reduces the local option sales tax rates as follows:

Current Rate	Proposed Rate
2.75%	2.0%
2.5%	1.75%
Less Than 2.5%	1.5%
- Reduces direct-to-home satellite sales tax rate to 5.5%, effective October 1, 2001.
- Reduces the Hall Income Tax Rate from 6% to 4%, effective July 1, 2001 and would apply to tax years beginning on or after January 1, 2001. Holds local government harmless by redistributing 57% of collections limited to the highest amount received in 1999, 2000, or 2001 by local governments.
- Repeals the Gift Tax and imposes a tax equal to the maximum credit allowed against the federal estate tax, effective January 1, 2002 and would apply to gifts made on or after that date.

ESTIMATED FISCAL IMPACT:

Increase State Revenues - Net Impact \$654,800,350 FY 01-02
\$982,405,466 FY 02-03

Increase State Expenditures - \$18,500,000 Recurring
\$11,000,000 One-Time

Increase Local Govt. Revenues - Net Impact \$412,237,500 FY 01-02
\$549,650,000 FY 02-03

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Estimate assumes the following:

<u>Increase State Revenues</u>	<u>FY 01-02</u>	<u>FY 02-03</u>
Extend F&E Tax to Sole Proprietors/Limited Partners	\$62,500,000	\$125,000,000
Extend Excise Tax on Owner's Compensation over \$72,600	82,500,000	165,000,000
Eliminate Certain Sales Tax Exemptions	528,750,350	705,000,466
Include Services in Sales Tax Base	1,205,250,000	1,607,000,000
Total Increase in State Revenues	\$1,879,000,350	\$2,602,000,466

<u>Decrease State Revenues</u>	<u>FY 01-02</u>	<u>FY 02-03</u>
Reduce State Sales Tax Rate	\$1,142,700,000	\$1,523,600,000
Reduce Home Satellite Sales Tax Rate	3,750,000	5,000,000
Reduce Hall Income Tax Rate And Hold Local Govt. Harmless	66,500,000	68,495,000
Eliminate Gift Tax	10,500,000	21,000,000
Modify Death Tax Credit	750,000	1,500,000
Total Decrease in State Revenues	\$1,224,200,000	\$1,619,595,000

NET INCREASE IN STATE REVENUES \$654,800,350 \$982,405,466

<u>Increase Local Govt. Revenues</u>	<u>FY 01-02</u>	<u>FY 02-03</u>
Eliminate Sales Tax Exemptions	\$285,750,000	\$381,000,000
Sales Tax on Certain Services	555,000,000	740,000,000
Total Increase Local Govt. Revenues	\$840,750,000	\$1,121,000,000

<u>Decrease Local Govt. Revenues</u>	<u>FY 01-02</u>	<u>FY 02-03</u>
Reduce Maximum Local Sales Tax Rate	\$428,512,500	\$571,350,000
Total Decrease Local Govt. Revenues	\$428,512,500	\$571,350,000

NET INCREASE LOCAL REVENUES \$412,237,500 \$549,650,000

Estimate further assumes an increase in state expenditures of \$18,500,000 recurring and \$11,000,000 one-time resulting from personnel and operations costs associated with the administration of the provisions of the bill.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.

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A handwritten signature in black ink, reading "James A. Davenport". The signature is written in a cursive style with a large, stylized initial "J".

James A. Davenport, Executive Director